



INCOTERMS

GENERAL INFORMATION

International Commercial Terms, known as “Incoterms”, are internationally accepted terms defining the responsibilities of exporters and importers in the arrangement of shipments and the transfer of liability involved in their international sales. Incoterms *do not* cover ownership or the transfer of title of goods. It is crucial to know which Incoterm is being used at the start of a negotiation/quotation of a sale, as it will affect the costs and responsibilities involved in shipping, insurance and tariffs. Incoterms are reviewed and published by the International Chamber of Commerce, and a list of all 13 Incoterms is included in the following pages of this document.

INCOTERMS AND THE EXPORTER

In any sales transaction, it is important for the seller and buyer to understand the terms of sale and know precisely what is included in the sale price. Exporters should determine the Incoterm that works best for their company and be prepared to quote on those terms. **See VEDP Issues FastFact - Responding to Inquiries.** For example, relatively inexperienced exporters may use the Incoterm “Ex Works” (abbreviated as ExW), because among the 13 Incoterms, this term carries the least burden. Under ExW, an exporter’s responsibility ends at their facility’s loading dock, which includes making the goods available for pick up and providing any product information needed for filing the Electronic Export Information, or EEI (formerly the SED, or Shipper’s Export Declaration). The importer’s agent (such as their designated freight forwarder) will arrange and pay for the pre-carriage, shipping, insurance and any additional costs from the exporter’s door. A sale based on the Incoterm “CIF”, on the other hand, requires the *exporter* to arrange and pay for the pre-carriage, shipping, and insurance to a named port. In this case, the sale price (invoice) includes not only the (C)ost of goods, but also (I)nsurance and (F)reight costs that the importing buyer pays the exporting seller.

When designating the Incoterm on a commercial invoice or a quotation to the buyer, the term should be followed by the city or port of load/discharge, such as “ExW Factory, Richmond, VA” or “CIF Rotterdam” to avoid any confusion or misinterpretation of the Incoterm. Communication throughout the entire process is crucial. For example, under Ex Works, the shipper should notify the importer when the goods are ready and after they have been picked up by the importer’s selected carrier. The exporter’s freight forwarder often provides the vessel and sail date, or air cargo service used, and any ocean bill of lading or airway bill number to keep the parties informed of the arrangements and status of the shipment (even though technically under Ex Works the exporter’s responsibility ends at their loading dock).

The most burdensome Incoterm for the exporter is Delivered Duty Paid (DDP) because all arrangements and costs are borne by the exporter, usually with the assistance of agents (freight forwarders and customs house brokers). With DDP, the exporter bears all risks and costs of transportation, including duties and tariffs, until the goods are received by the importer, usually at the importer’s factory or warehouse.

Example: Four palletized drums of chemicals at US\$ 40,000, DDP Santiago, Chile.

This means the exporter is telling the importer that for \$40,000 the importer will get the merchandise delivered to the importer’s facility in Santiago, Chile. The exporter arranges and



INCOTERMS

pays for all transit costs, including delivery to the importer's designated facility in Santiago, including any insurance coverage and duties/tariff charges. While these costs are added to the product's price and are sometimes itemized on the commercial invoice, the exporter takes full responsibility for the added logistics costs and headaches, such as delays at customs, demurrage or detention, or changes in inland or ocean transportation costs. Shipping DDP should only be assumed by the most experienced exporters. Many details must be considered, such as duties, currency exchange, reputability of service providers, and delivery to the final destination. For example, if your product is a large, custom made piece of machinery for a factory:

- Are there local out-of-gauge, heavy lift service providers?
- Does the road to the factory allow access by an oversized truck?
- What are the dimensions and capability of the buyer's receiving dock?
- How will you repair any damage that may occur during transit?

TYPES OF INCOTERMS

Incoterms consist of 4 groups (E,F,C,D) and are listed below in order of increasing risk/liability to the exporter. Some Incoterms only apply to ocean/inland, not air, transportation modes.

EXW - Ex Works -- The only Incoterm in Group E, represents the minimum liability to the seller. Risk and expenses are borne by the buyer, including payment of all transportation and insurance costs from the seller's door. EXW is used for any mode of transportation.

GROUP "F" - Seller pays for pre-carriage at origin but does not pay for main carriage.

FCA - Free Carrier -- Risk passes to buyer, including transportation and insurance costs on the buyer's collecting vehicle; it is the buyer's obligation to receive the seller's arriving vehicle unloaded.

FAS - Free Alongside Ship -- Risk passes to buyer, including payment of all transportation and insurance costs, once delivered alongside ship by the seller. Used for sea or inland waterway transportation. The export clearance obligation rests with the seller.

FOB - Free On Board -- Risk passes to buyer, including payment of all transportation and insurance costs, once delivered on board the ship by the seller. Used for sea or inland waterway transportation. (Most commonly used of F Group)

GROUP "C" - Seller arranges and pays for main carriage but does not assume risk.

CFR - Cost and Freight -- Risk and insurance cost pass to buyer when delivered on board the ship by seller, who pays the transportation costs to the destination port. Used for sea or inland waterway transportation.

CIF - Cost, Insurance and Freight -- Risk passes to buyer when delivered on board the ship by seller, who pays transportation and insurance costs to destination port. Used for sea or inland waterway transportation.

CPT - Carriage Paid To -- Risk and insurance costs pass to buyer when delivered to carrier by seller, who pays transportation costs to destination. Used for any mode of transportation.

CIP - Carriage and Insurance Paid To -- Risk passes to buyer when delivered to carrier by seller, who pays transportation and insurance costs to destination. Used for any mode of transportation.



INCOTERMS

GROUP “D” - Seller assumes the most cost/risk because goods must be made available upon arrival at agreed destination.

DAF - Delivered at Frontier -- Risk and responsibility for import clearance passes to buyer when delivered to named border point by seller. Used for any mode of transportation.

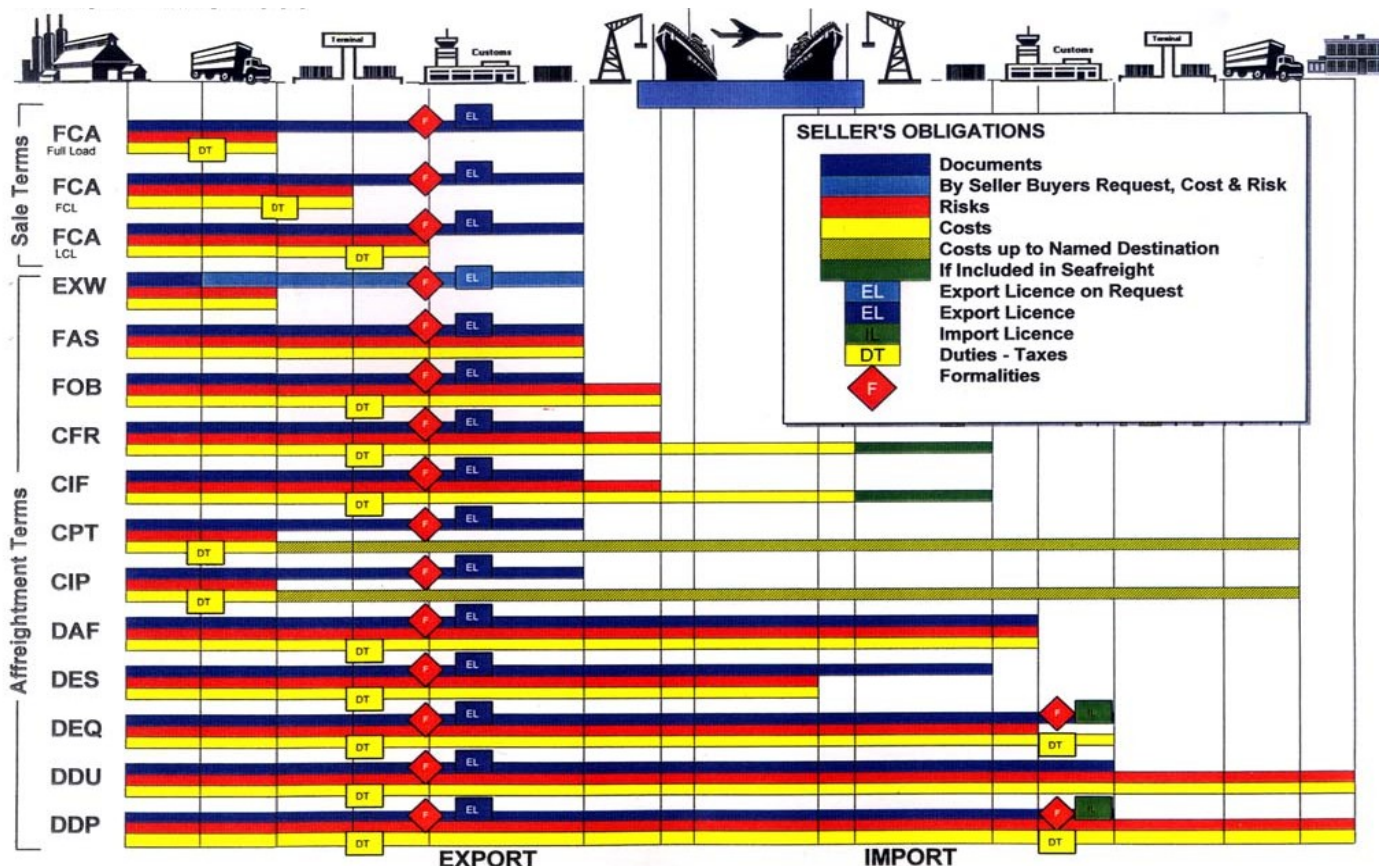
DES - Delivered Ex Ship -- Risk and responsibility for vessel discharge and import clearance pass to buyer when seller delivers goods on board the ship to destination port. Used for sea or inland waterway transportation.

DEQ - Delivered Ex Quay (Duty Paid) -- Risk passes to buyer when delivered on board the ship at the destination point by the seller, who delivers goods on dock at destination point cleared for import. Used for sea or inland waterway transportation.

DDU - Delivered Duty Unpaid -- Risk and responsibility of import clearance pass to buyer when seller delivers goods to named destination point. Buyer is obligated to import clearance. Seller fulfills their obligation when goods have been made available at the named place in the country of importation. Used for any mode of transportation.

DDP - Delivered Duty Paid -- Risk passes to buyer when seller delivers goods to named destination point cleared for import. Used for any mode of transportation.

Incoterms—Seller / Buyer Risks, Costs and Obligations Transfer



(Source for Graph: Shen Zhen Per Do International Logistics Co.)



INCOTERMS

INCOTERMS DO NOT...

- Determine transfer of title to the goods.
- Apply to service contracts.
- Define contractual rights or obligations, except for delivery, nor breach of contract remedies.
- Specify details of the transfer, transport, and delivery of the goods.
- Protect parties from their own risk or loss.
- Cover goods before or after delivery.

VEDP TRADE EVENTS

The VEDP participates in many international trade events and hosts a number of market visits. All Virginia companies are welcome to attend. For a complete listing of VEDP's international trade events, please visit the "Events" tab on our website: www.ExportVirginia.org

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ADDITIONAL RESOURCES

- International Business Training. Incoterms chart of responsibility: www.i-b-t.net/incoterms.html
- International Chamber of Commerce. Incoterms wall chart: www.iccwbo.org/incoterms/wallchart/wallchart.pdf
- U.S. Department of Commerce: www.export.gov/logistics/eg_main_018114.asp
- TradeXpro.com online: <http://www.tradexpro.com/incoterms/>
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